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American Woman's Society of Certified Public Accountants

American Society of Women Accountants

THE WOMAN C.P.A.

In This Issue

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AMERICAN SOCIETY OF WOMEN ACCOUNTANTS

THE WOMAN C.P.A.

VOL. 9 FEBRUARY, 1947 NUMBER 2

EDITORIAL

We are sorry to lose the efficient and willing services of Phyllis O'Hara as editor. The December issue carried her announcement that, for reasons connected with her work, she will no longer be able to carry on. Until some other arrangement is made, the president of AWSCPA will function as editor and all contributions for the magazine should be sent to her.

AN ACCOUNTANT'S RESPONSIBILITY

The following paragraph quoted from the bulletin of the Colorado Society of CPA's deserves thoughtful reading:

"One of the most important requisites for the continued progress of our profession is that each individual assume the responsibility of keeping informed on developments within the profession. It is his responsibility to know not only the standards which have been set, but also the best practice and procedure for meeting those standards. This can best be accomplished by taking an active part in your professional organizations, that you may benefit from the thought and experience of the other members, and that they may benefit from your ideas."

DON'T USE SHORTHAND

There are few bookkeeping records in which "&" does not appear, if in no other accounts than the old stand-bys, "Profit & Loss" and "Materials & Supplies."

This handy little symbol, which the dictionary calls the *ampersand,* has a venerable history. In Rome in the year 63 B.C. Marcus Tiro invented the first shorthand system. Evidently the world was not ready for shorthand, for of the 5000 signs which Tiro devised, only one, the "&", has survived.

The knowledge that it is, after all, only a shorthand symbol should be adequate to deter us from using the ampersand in comment matter in place of the word it represents.

A PRACTICING ACCOUNTANCY INSTITUTE

In an address before the New Jersey Society of CPA's Julius E. Fink presented a constructive recommendation relating to group education for the practicing accountant. The following is excerpted from the report on his speech:

"A Practicing Accountancy Institute is the inevitable answer to the growing thirst for knowledge by accountants. The studies and research should be on the level of the practicing CPA. We should not duplicate the work of professional schools. We should begin where they leave off; our studies should be professional in nature, and be rooted in actual practice. Courses should be integrated as a whole, and within certain sub-divisions, and each course should be integrated within itself. The 'seminar' rather than lecture method should find a primary place in the system of presentation. This will require limited size of study groups and demand cooperative effort, study, and contributions, under special leadership, by all participants. A by-product should be contributions of the group to the profession as a whole.

"I present for your consideration the wisdom of ultimately establishing an institute for practicing certified public accountants. Such an institute should be an autonomous body with a life, continuity, and experience of its own. Yet it should be sponsored, influenced, and interlocked with the existing professional societies. Like the Practicing Law Institute, it should be separately incorporated. Its charter would be that of a corporation organized for non-pecuniary profit. The nature of its sessions cannot and should not be predetermined in advance with dogmatism and with fixed and rigid preconceptions. Their character must be shaped by the expressed needs of the practitioners, by the special abilities and talents of those who conduct courses, and by the general aims of the profession as conditioned by the impact of the economic changes that develop."

PROXY-SOLICITING PROCEDURES

In a report by the Securities and Exchange Commission on the proxy-soliciting procedures of certain unregistered companies, the Commission summarizes the inadequacies disclosed by a study of 76 such companies under the following general headings:

1. Failure to name the persons whom the proxy agents intend to elect as directors.
2. Failure to offer an opportunity for a "Yes" or "No" vote on the individual items of business to be transacted at the meeting.
3. A statement that approval and ratification of all acts and proceedings of management since the last annual meeting would be voted on at the meeting, without disclosing the nature of these acts and proceedings.
4. Omission of information regarding the remuneration of management.
5. Failure to disclose the security holdings of directors or nominees.
6. Failure to disclose the personal interest of officers and directors, or their associates, in any of the matters to be acted on.
7. Failure to furnish financial statements to stockholders before the date of the annual meeting.

DETECTION OF IRREGULARITIES

The November issue of *The Spokesman* carries the story, written by Robert Caldwell, Jr., of an irregularity not involving the client's employees, turned up by an auditor in his examination of his client's accounts.

In a routine examination of cancelled checks the auditor noticed that two checks drawn to the order of different charities bore ink endorsements followed by an individual endorsement, indicating that they had been cashed rather than deposited. Inquiries persistently followed through revealed the existence of a fraudulent charity scheme directed particularly at business houses.

THE SEC AND THE ACCOUNTANT

The Securities and Exchange Commission has been of tremendous help to the accounting profession because of its very considerable powers in enforcing those principles of sound procedure and disclosure for which accountants have battled for years without previous outside help. Accountants are grateful for this assistance.

It is unfortunate that most public references to accountants by the SEC relate to financial statements which the Commission finds to be unacceptable. It is even more unfortunate that it is not made clear that the majority of those cases do not involve either incompetence or misrepresentation but merely matters of judgment or difference of opinion, sometimes on quite minor points.

Both the accounting profession and the SEC suffer an injustice when the public is not informed of the respect which each has for the other's attainments.

PRONOUNCE IT CORRECTLY

The Chinese may be excused for having trouble with their *r's*. To pronounce an unaccustomed sound is not so easy as some may think, as those of you who have struggled with the German *ch* or umlauted *u* can attest.

We in the United States, however, cannot plead that the *r* sound is foreign to us. Why, then, do so many words containing *r* confuse us? Take the word *February*. If you will listen carefully you will be appalled at the number of times you hear it pronounced *Feb u a ry*. Now note how those around you pronounce the word *secretary*. Do they say *sec a ta ry?* If any do we hope you noticed the fault.

Then there are those who retrieve these *r's* filched from *February* and *secretary* and bestow them upon words which neither have nor want them. How many times have you heard *subsidiary* pronounced *sub sid e ra ry? Fiduciary* pronounced *fi du shi ra ry? Beneficiary* pronounced *ben e fi shi ra ry?* Too often, without doubt.

—Jennie M. Palen

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Laziness grows on people; it begins in cobwebs and ends in iron chains. The more business a man has to do, the more he is able to accomplish; for he learns to economize his time.

—Judge Hale

Entered as second-class matter December 19, 1945, at the Post Office at New York, N. Y., under the Act of March 3, 1879.

COAST - TO - COAST

PAULA E. REINISCH, ***Grand Rapids, Michigan***

ATLANTA

Changes in the Income Tax Laws for 1946 was the subject presented to the study class by Mrs. Charles A. Plunkert, chief of the audit section of the Atlanta office of the Collector of Internal Revenue.

Mrs. Cecil Fuller, who is with Tucker, Wayne & Company, spoke on the advantages of *Advertising* at the January meeting.

Dr. James A. Pait, professor of philosophy at Emory University, was guest speaker at the February meeting. His subject was *Ethics in International Law.*

Mrs. Pearl Youngblood, personnel manager, Southern Bell Telephone & Telegraph Company, will discuss *Office Management* at the March meeting.

New members: Mayme Chambliss; nonresident, Eleanor K. Walquist, Waterford, N. Y.

CHICAGO

The program for the January meeting was devoted to legislation—*Equal Pay for Equal Work.* The meeting was held jointly with the Business and Professional Women's Club of Chicago.

Edna Grambort, a long-time member of the Chicago Chapter, is now living in San Francisco.

New members: Loretta S. Frey, Doris Powell and Wilma Bale.

CLEVELAND

Russell Weisman, an economist on the Cleveland PLAIN DEALER and writer of the column "An Economist's Point of View", addressed the group at the January meeting on the subject of the current economic situation.

Rose Vormelker, head of the business information department of the Cleveland public library, was the guest speaker at the February meeting. Recently nominated one of the outstanding "Women of the Year" in Cleveland, Miss Vormelker selected as her subject *Putting Knowledge to Work.*

Maude Miller is the new editor of *The Figurehead,* Cleveland chapter's monthly bulletin, succeeding Theia Gebbie, who is in Los Angeles and may make that city her home.

Public Relations will be the keynote of the address to be given at the March meeting by Dale Brown, assistant vice-president in charge of public relations at The National City Bank of Cleveland.

DETROIT

John Raymond, CPA, formerly with Price, Waterhouse & Co. but now an independent practitioner, simplified 1946 *Income Tax Reports* at a round table discussion at the January meeting. Mr. Raymond teaches income taxes at the Detroit Institute of Technology.

Gladys Catherwood, attorney, will speak on *Probate Procedures* at the March meeting. A practicing attorney for 15 years, Miss Catherwood received her AB degree from the University of Michigan and her LLB degree from the University of Detroit.

New members: Vivian Margaret Steffin, Margaret Gertrude Hindelang, Theopila T. Grenzicki, Helen E. Henry, Camille T. Mateja, Sonia Mae Gordon, Lorraine E. Du Russell. Junior members; M. Jane Kay, Helen E. Casey.

GRAND RAPIDS

An interesting study class on *Human Nature and an Enduring Peace,* conducted by Dr. Stevenson, University of Michigan, is on the early winter agenda.

Marion A. Frye, national AWSCPA-ASWA public relations chairman, organizer and a past president of the Cleveland chapter, was a guest at the December dinner meeting. Miss Frye named Emma Hey as the Grand Rapids representative on the ASWA national public relations committee.

J. Preston Miller, CPA, formerly a partner of Lawrence, Scudder & Co., outlined the *Changes in the Income Tax Laws for* 1946 at the January meeting.

John B. Martin, Jr., a well-known Grand Rapids attorney associated with Bidwell, Schmidt & Martin, was the principal speaker at the February meeting. *Security Frauds* was his topic. A Rhodes scholar and a graduate of University of Michigan Law School, Mr. Martin practiced law in Cleveland, was deputy head of the Blue Sky Commission in Columbus, Ohio prior to World War II, and was also deputy director of the National Office of Civilian Defense.

Phillis M. Haan led the January study group in a discussion of *Elimination of Unnecessary Operations in Office Procedure.*

New members: Nancy M. Terkeurst, Ruth A. Hart.

INDIANAPOLIS

Competitive sport as a relaxation after accounting hours has taken hold of the Indianapolis Chapter, which boasts the first bowling team among ASWA chapters.

W. Miller Bennett, comptroller of Inland Container Corporation, spoke at the January meeting on the subject of *Office Management.*

Sally Butler, president of the National Federation of Business and Professional Women's Clubs, drew a large attendance at the February meeting, when she spoke on *European Women Facing Reconversion.*

MUSKEGON

R. J. Sanders, a representative of Burroughs Adding Machine Company and a member of NACA, was the principal speaker at the December meeting. Mr. Sanders discussed *Accounts Receivable—New Retail Trend.*

The first of a series of classes in parliamentary drill opened January 21 under the tutelage of Mrs. George Clark, a local instructor in parliamentary procedure.

R. C. Maihofer, CPA, who is with Maihofer, Moore & DeLong, favored the chapter with a very stimulating talk on 1946 *Income Tax Reports.*

New members: Lena M. Anderson, Esther Knooihuizen, Blanche Clark

NEW YORK

Jennie M. Palen, national president of AWSCPA, addressed the New York chapter at the January meeting on *The Functions of the Securities and Exchange Commission.*

SAN FRANCISCO

Among recent guests were Walter G. Draewell, president of the California Society of CPA's, and Miss Elsie Eiler.

Wallace Baird, CPA, manager of Price, Waterhouse & Company's San Francisco office, spoke on *The Balance Sheet* at the January meeting.

Mr. Samuel Taylor, tax attorney, formerly with the Internal Revenue Bureau, chose the timely subject *Income Taxes* for the February dinner meeting.

SEATTLE

Congratulations to Mrs. Marguerite Gibb, who passed the CPA examination in November.

Marguerite Reimers reported on the joint conference at Spokane at the December meeting. Six Seattle members attended.

Miss Reimers also led a panel discussion on *Inventories* at the February meeting. The members of the panel were Ida K. Ezra, chairman, Lucille O'Halloran, Lillian Johnson, Ruth Thomas and Gladys Dornton.

Helen W. Wilkie, CPA, talked briefly on *Income Tax.*

The January panel was devoted entirely to *Income Tax Reports.*

TERRE HAUTE

Life Insurance—All Its Phases was interestingly presented at the January meeting by Carl L. Farmer, superintendent of the local Prudential Insurance Company office. A round table discussion of *Withholding and Income Taxes* followed.

In February H. R. Brown of Horace Link & Company, Paris, Illinois, was the guest speaker. Mr. Brown, a member of NACA, discussed the *Procedure Used in Retail Furniture Industry* and *Distribution and Bottling of Carbonated Beverages.*

The Place of Women in Postwar Industry is the subject selected by Mrs. Clare N. Williams, president of the Terre Haute Business and Professional Women's Club, for the March meeting.

NEW MEMBERS

AWSCPA welcomes as new members:

Miriam I. R. Eolis, c/o A. L. Eolis & Associates, 450 Seventh Avenue, New York. Attended: Hunter College; St. John's U.; Columbia U. Degrees: A.B.; LL.B.; M.A.; C.P.A. Member: N. Y. County Lawyers Assn.; Federal Bar Assn.; N. Y. Women's Bar Assn.; Nassau County Women's Bar Assn.; Federal Tax Forum; National Tax Assn.; N. Y. State Society CPA's and Tax Institute.

Rosemarie Neumann, c/o Arthur Young & Company, 1 Cedar Street, N. Y. Attended: Hunter College and New York University. Degrees: B.A.; M.B.A. Member: American Assn. of University Women.

NEW C.P.A.'s

The women listed below were successful candidates in May 1946 C.P.A. examinations. Our congratulations to each of them!

Marjorie Henderson, c/o George R. Poole Company, Raleigh, North Carolina.

Henrietta L. Preston, RFD, Bowie, Md.

Bella Hirshkopf, 1146 Columbia Avenue, Chicago.

Maybell Edwina Meyers, 7745 Indiana Avenue, Chicago.

* * *

Great ideas travel slowly, and for a time noiselessly, as the gods whose feet were shod with wool.

—JAMES A. GARFIELD

TAX NEWS

MARY LANIGAR, C.P.A., Beverly Hills, California

SURTAX ON IMPROPER ACCUMULATION OF SURPLUS

Sec. 102 imposes an additional surtax on corporations which permit earnings and profits to accumulate for the purpose of preventing the imposition of the surtax on their individual shareholders. The law provides that the fact that the corporation is a mere holding company or that earnings or profits are permitted to accumulate beyond the reasonable needs of the business shall be prima facie evidence of avoidance of imposition of surtax upon shareholders. In general the surtax is imposed upon the net income (before deducting net operating loss or capital loss carry-over) less federal income tax and less dividends paid. A cash basis corporation must deduct income taxes paid rather than accrued in the taxable year. The tax rate is 27½% of the first $100,000 and 38½% of the amount in excess of $100,000.

Question 8, page 3 of the 1946 Federal Corporation Income Tax Form 1120 is designed to supply preliminary information as to the status of a corporation with respect to the Sec. 102 surtax. If dividends paid were less than 70% of the earnings and profits of the taxable year, this question asks that reasons for the retention of earnings be stated. A concrete and carefully planned response to this question is advisable for any corporation to which Sec. 102 might be applicable. While many corporations have set aside surplus for plant expansion, possible inventory losses or other future contingencies, a more specific reason for accumulating surplus than possible adverse economic conditions should be supplied, If there are circumstances which would indicate a possible assessment under Sec. 102, every effort should be made to reduce the surplus requirements to writing and to maintain a special folder of pertinent information which might be submitted to a Revenue Agent who proposed an assessment. Minutes of directors' meetings in which expansion plans were discussed, architect's plans, contractor's estimates and copies of correspondence assembled in a folder would be convincing evidence that expansion was actually contemplated. If inventory requirements constitute a valid reason for retaining surplus, it would be advisable to prepare inventory comparisons and to retain price lists and pertinent articles from trade publications to support the corporation's position. The best defense against the imposition of the Sec. 102 surtax penalty is adequate information to convince the Revenue Agent that he should not assert the penalty. The amount of surplus which may reasonably be required in a particular business is a matter of judgment, and it is difficult to present the facts to a court of law. Corporations which have invested in securities or other assets not related to their business or have lent money to officers or stockholders are unusually vulnerable. While particular attention is directed to closely held corporations, the Sec. 102 surtax was imposed in the Trico Products Corp. case, in which there were a number of shares of stock held by the general public.

TIME FOR TAXATION OF PARTNERSHIP INCOME

In the case of a partnership which is terminated before the end of a fiscal year, the questions of the time to file a return and the calendar year in which a partner should report his distributable income have troubled many taxpayers. While the regulations are not specific in this respect, the issue has been clarified by several court cases. The conclusion was that a previously established accounting period would be followed despite the fact that the partnership was terminated before the end of such period.

A recent case, Mary D. Walsh, 7 T. C. No. 25, concerns the termination of a partnership with an established May 31st fiscal year by the death of a partner on July 7, 1939. The court held that the surviving partners were not required to report the income for the period June 1, 1939 to July 7, 1939 in their individual calendar year returns until 1940. The conclusion was that the taxable year of the partnership was not changed as far as the surviving partners were concerned by the death of a partner during the fiscal year. An earlier case held that a partnership dissolved during the year should report income for the final period as income of the twelve month accounting period. Establishing the accounting period determines the time for filing the final return as on or before the fifteenth day of the third month following the close of the accounting period.

DEDUCTIBILITY OF FEDERAL STAMP TAXES ON SECURITY AND REAL ESTATE SALES

The Revenue Act of 1943 applicable to taxable years beginning after December 31, 1943 provided that Federal stamp taxes were not deductible as taxes. In further clarification of the treatment of stamp taxes I. T. 3806 provided that transfer taxes paid by a dealer in securities or real estate were deductible as ordinary and necessary business expenses and that transfer taxes paid by a nondealer were deductible only as a selling cost or reduction of selling price in determining the net gain or loss realized. The provision concerning nondealers limits the income tax benefit to be derived. Since net long term capital gains are included in individual returns to the extent of 50% of the actual gain, the transfer tax deduction would be only 50% of the amount paid.

Prior to the publication of I.T. 3806 in July 1946, the Bureau had ruled that transfer taxes paid by nondealers were deductible and need not be treated as offsets against the selling price. Mim. 6083 recognizes the fact that many taxpayers relied on the previous ruling, which was widely publicized, in filing 1944 and 1945 returns. It states that it will be the administrative policy not to disturb the treatment of stamp taxes in returns which followed the previous ruling if filed before the publication of I.T. 3806.

VETERANS' SUBSISTENCE ALLOWANCES

Subsistence allowances received by a veteran who is engaged in on-the-job training or who is attending school are not taxable income. A salary paid by the employer to a veteran engaged in on-the-job training is taxable to him in the same manner as any other compensation.

A veteran attending school and receiving a subsistence allowance may be claimed as a dependent under certain circumstances. A dependent may not have gross income of $500 or more, but the subsistence allowance would not be included in gross income. In determining whether the taxpayer claiming the exemption furnishes more than one half of the support, nontaxable income of the dependent must be considered if it is used for the dependent's support.

FAMILY PARTNERSHIPS

Family partnerships, a popular device for avoiding high surtax brackets in recent years, have produced many additional income tax assessments,-but two recent cases indicate that they will be further scrutinized by the Treasury Department as sources of gift tax revenue. Most family partnerships arise through a sale or a gift of an interest in a going concern to a wife or minor child. Because of the difficulties involved in determining the fair market value of a successful business, the gift tax problem may prove more troublesome to taxpayers than the problem of convincing the courts that a bona fide partnership exists. From an income tax standpoint nothing is lost if family partnership income is taxed to the husband rather than to the wife and children as intended, since the income was originally taxable to the husband. However, if a gift tax is imposed it must be paid even when the contemplated saving in income tax is unsuccessful.

IN MEMORIAM

Florence R. Pennington

The Los Angeles chapter suffered a grievous loss in the death early in December of its president, Miss Florence R. Pennington.

Miss Pennington joined ASWA shortly after it was organized in 1940 and served it continuously and effectively in many capacities. Her wise counsel, clear vision and capacity for friendship will long be remembered by all who knew her.

Besides being president of the Los Angeles chapter she was a member and past officer of the Eagle Rock Business and Professional Women's Club, and a member of the Eagle Rock and Highland Park Realty Board, of the Highland Park Ebell Club, and of the Eagle Rock Women's Twentieth Century Club.

She is succeeded in the office of president by Miss Virginia Boyer, who is on the staff of Price, Waterhouse & Co. in Los Angeles and received her CPA certificate during the past year.

Helen Walker

Atlanta chapter was inexpressibly saddened by the death of one of its most outstanding members, Mrs. Helen Walker, who lost her life in the tragic hotel fire early in December. Mrs. Walker, who was audi-

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PUBLIC ACCOUNTING LAWS OF ILLINOIS

by Mary C. Gildea, C.P.A.

Since many states are facing the problem of regulating public accounting practice, the experience of Illinois in this regard may be of interest.

In 1903 the legislature of the State of Illinois passed a law providing for the granting of the certificate of Certified Public Accountant. Under this law the certificate was to be granted by the University of Illinois to those who passed an examination and met other requirements as to age, residence and character. There was no provision made for restricting the practice of accounting to those holding such certificates, the only restriction being that unauthorized persons were prohibited from using the words "Certified Public Accountant" or the initials "CPA" in conjunction with their names.

Lacking such restriction, there were many people practicing public accounting in Illinois who were not certified. They resented the distinction given other accountants by the use of the title CPA and, in turn, the certified public accountant felt that there should be some restriction on the practice of accounting to those who had demonstrated their ability in that line. The bickering between the two groups finally resulted in a compromise bill passed by the legislature in 1927 which provided for the licensing of those who were engaged in the public practice of accounting. This did not supplant the law of 1903 but rather supplemented it. The certificates of certified public accountant were still granted by examination by the University of Illinois. However, in order to engage in the public practice of accounting it was necessary to obtain a license from the State Department of Registration and Education. Three years' experience in public practice and the passing of an examination given by the State Board were required before such a license could be obtained. As a matter of expediency, all those who had been engaged in public practice for a stated number of years at the time the law went into effect, and those who had CPA certificates at that time, were given licenses by waiver.

As a result of these two laws, there were various groups of accountants in Illinois, such as—

1. Those who had met the requirements of the University of Illinois, had passed the examination, and had received the CPA certificate, but who could not obtain licenses because of lack of public accounting experience;
2. Those who had the CPA certificate and had also obtained licenses to practice;
3. Those who had met the requirements of the State Board and had licenses to practice but who had not passed the CPA examination and could not call themselves certified public accountants. They were usually designated as Registered Public Accountants or Licensed Public Accountants.

It can readily be understood that the situation bred dissatisfaction among the accounting practitioners and confusion for the public. After many years of effort, a plan was worked out which met the approval of representatives of both the certified public accountants and the accountants who were licensed but not certified. This plan was submitted to the legislature and, as a consequence, the present law was enacted in 1943, superseding both the 1903 and the 1927 laws.

Under the 1943 law, the practice of public accounting in Illinois is restricted to those registered with the Department of Registration and Education, and the requirements for registration are: (1) a certificate of certified public accountant from the University of Illinois; and (2) three years' experience on the staff of a practicing public account. The Department has the right to accept two years' study in a college or university in lieu of one year of experience and the successful completon of a regular four-year university or college course in lieu of two years of experience.

In addition to holding the reguluar examinations for the certificates as certified public accountants, the University of Illinois was given the right to appoint a special board of examiners with the approval of the Board of Registration and Education. This special board of examiners gives oral or written examinations to those applying for CPA certificates who, at the time of such application, have held licenses as Registered Public Accountants for at least ten years, have been engaged in the practice of public accounting in Illinois for at least ten years, and who make application within ten years from the enactment of the Act. Those applicants meeting the requirement and passing the examination are granted the CPA certificates. The law also empowered the University of Illinois to issue certificates to those making application therefor within one year after the enactment of the act who were holders of unrevoked CPA certificates from other states or who had received their licenses as public accountants on the basis of the regular semiannual written examinations which had been given by the Board of Registration and Education.

It will be noted that certificates or licenses issued prior to the enactment of this law in 1943 are not invalidated thereby, but in future licenses to practice will be restricted to those having CPA certificates and the required amount of experience. For those who had been engaged in the practice of public accounting for many years in the State of Illinois but who did not have CPA certificates, the special examinations were set up in order to facilitate their obtaining CPA status. It will also be noted that CPA certificates were granted without examination to those who passed the State Board written examination for licenses provided they made application for such certificates within one year from the enactment of the Act. A great many of the non-certified public accountants have obtained CPA certificates under these special provisions.

Another provision in the law permits the granting of CPA certificates to those who have unrevoked CPA certificates from other states which were obtained by examination and with qualifications in accordance with those required by the State of Illinois.

The net result is that within a few years' time, the State of Illinois will have only one class of public accountants, those designated by the initials CPA. This will have been accomplished without injuring in any way those who for many years were engaged in public accounting practice but who were not certified. It should bring into closer harmony those serving the public in Illinois as certified public accountants and should thus raise the standard of the profession in the state.

We are pleased to present this timely article by a former editor of THE WOMAN CPA and past president of ASWA.

Mary Gildea is a partner in the accounting firm of H. E. Snyder & Co., Chicago. A Hoosier by birth, she studied accounting at DePaul University School of Commerce and has an AB degree from University of Chicago School of Business.

She is a member of the Illinois Society of CPA's and was one of the first members of AWSCPA.

IDEA EXCHANGE

EMILY BERRY, *Indianapolis, Ind.*

At a meeting of one of the chapters the question was raised as to what an executive could do to cope with employees who insist on carrying tales about other employees, especially when, as is so often the case, these stories are exaggerated or even malicious. One member volunteered the information that she had greatly reduced this evil by talking to the accused employee, finding out her side of the story, then calling both employees into her office, very pleasantly telling each what the other had said, and asking them gently which version was correct. The next step was to leave them alone in her office to make the necessary explanations to each other. This procedure not only adjusted many differences, but pretty effectively discouraged reckless tale-bearing.

Another chapter is concerned over the personnel problem. In these days of shortages, one of the most critical is good employees. What can be done for an employee who is well trained and whose work is generally satisfactory but who just does not get along with others in an organization? Have you found a successful solution which you would like to pass along?

Evidently personnel problems are not all on one side of the fence, even in these times, because one member wants to know how to go about getting a salary increase from an employer who, at the time of hiring, promised such a raise in six months and then seemingly forgot even that there are such things as increases. That, if you like your work and don't want to change, is a problem. Any suggestions?

Atlanta chapter has conceived what might be called "An Idea to Get Ideas." It designated one of its regular meetings as "Idea Exchange Meeting" and assigned hostesses to lead the conversation into ideas for the Idea Exchange.

FEDERAL OLD AGE AND SURVIVOR INSURANCE

Examples of benefits payable

By JOAN A. OLSON, *Detroit*

Retirement benefits are payable monthly to the "fully insured" wage earner when he retires at 65 or later, to his wife when she is 65 and to his unmarried children under 18. To become "fully insured" the wage earner must have been paid $50 in *covered* employment in at least half the calendar quarters between January 1, 1937 (or the time he became 21, if later) and his 65th birthday, or the date of his death. No one with less than 6 quarters coverage can become "fully insured." Once having acquired 40 quarters coverage one is "fully insured" for life. However, the *amount* of benefits is based on average monthly wage plus an additional amount for each year in which worker was paid at least $200 in jobs covered by the law.

Survivors' benefits of "fully insured" workers are payable to children under 18; to widow with child in her care, until youngest child is 18 (payments resume when widow is 65); to widow without child in her care, when she is 65, if not remarried; to parents over 65, chiefly dependent on wage earner at time of his death, provided worker left neither widow nor child entitled to benefits. Monthly benefits are also payable for children under 18 and to widow with such children in her care when worker was only "currently insured", that is, had worked in *covered* employment about half the last three years of his life. *Lump sum* death benefit of worker, either fully or currently insured, is payable when there is no survivor immediately eligible for monthly benefits.

Primary insurance benefit (PIB) is figured at 40% of the first $50 of average monthly wage, plus 10% of remainder, plus 1% for each year in which paid at least $200 in covered employment. A widow's monthly payment is ¾ husband's PIB. For all others it is ½ his PIB. The lump sum benefit is 6 times the PIB. Minimum monthly benefit paid to a family on one worker's account is $10. Maximum is $85, or twice the PIB or 80% of the worker's average monthly wage, whichever is least. To a person eligible for more than one benefit the larger amount is paid. Benefits are suspended for any month in which one earns more than $14.99 in *covered* employment. A worker or beneficiary is advised by the field office as to the best course in applying for benefits. At 65 a worker should get in touch with the nearest Social Security Administration field office, whether retiring or not, as delay in filing claim may result in lower benefits later. A widow with six children may be advised to apply for benefits for the four youngest, so that she and the two older children may work in covered jobs.

Some changes took effect on January 1, 1947, such as retroactive benefits. The August amendments include one protecting the survivors of the qualified veteran who died within three years of the date of his discharge, by giving ex-servicemen a "fully insured" status with an average monthly wage credit of $160 and additional percentage for each year of at least 30 days active service after September 16, 1940.

A wage earner may get a statement of his or her account by writing Social Security Administration, Candler Building, Baltimore 2, Maryland. It is well to do so yearly. Some errors cannot be corrected after 4 years. Literature and answers to questions on the subject may be obtained at any field office.

The October 12 issue of "Colliers" contained an article *"Protect That Pension"* by Congressman A. S. Mike Monroney explaining why he deems it necessary to graduate the social security tax rate to 3% as scheduled in the original Act. He discussed possible expansion of benefits to cover the two out of five persons not now protected and retirement pay for extended or permanent disability. Medical care is another potential coverage.

IN MEMORIAM

(continued from page 8)

tor of the Winecoff, was quite prominent in business and civic affairs of her city and had just been elected vice-president of the Women's Chamber of Commerce.

Edith Lindholm

Chicago chapter lost a valued member through the death of Edith Lindholm in October.

Marion Lowes

Marion Lowes, who died quite suddenly in November, is mourned by her many friends in the Grand Rapids chapter.

Katherine West spent thirteen years as an internal accountant for a manufacturing company before she joined, simultaneously, the staff of Haskins & Sells and the faculty of Brooklyn College, where she teaches accounting two nights a week.

While studying evenings at Hunter she abandoned her first intention of specializing in mathematics and switched to an accounting major. After Hunter College had bestowed an A.B. (cum laude) upon her, she pursued graduate work in accounting and auditing at Columbia, where she obtained an M.S. in 1946.

The accompanying article on the difficult subject of mechanized accounting is a condensation of the thesis on which her master's degree was granted.

Miss West is a member of the New York Chapter ASWA and chairman of its Committee on Education.

MECHANIZED ACCOUNTING

By Katherine M. West

Just as machines solved industry's need for greater production, mechanical devices are employed on a wider scale from day to day to prepare the necessary paper work for the modern business. The designation of certain mechanical devices as "auditing machines" has resulted in some misunderstanding regarding the work they produce. Some persons have visualized the machine as a form of equipment into one end of which figures are fed to reappear at the other end in the form of a finished statement. This is far from the truth; for the so-called "auditing machines" are scarcely more than statistical and registering apparatus. The name "auditing" applies only to the machine's capacity to furnish an internal check upon the transactions analyzed.

Irrespective of whether the books are kept by hand or machine methods, the examination of the accounting system in force is the first step in every audit. It is only after the auditor has made such a preliminary investigation that he can plan his audit program for the particular engagement. Before he begins his work, he must ascertain how the machines are used, the nature and quality of the work performed, and to what extent this machine-produced work is proof against error. It is still a matter of individual judgment how strong the evidence should be and at what point the auditor should feel satisfied.

There are two major systems of mechanized accounting, those in which posting machines predominate and others which employ the more recently devised punched card equipment.

In reviewing an accounting system in which posting machines are employed, the auditor should become familiar with the two most outstanding features of the work, the prelisting and the proof sheet. The first involves the use of an adding device to itemize the media before posting. The proof sheet, prepared simultaneously with the individual records, is a summary which shows the detail of each recorded transaction and the total of all items posted during the entire "run".

Originally devised for census compilations, the punched card system has been adapted to other statistical and accounting work and has been satisfactorily adopted by various business concerns in which the increasing volume of paper work persisted as a principal problem.

Under this mechanical system, the operator records the particular facts or data required by punching holes in the symbols on the cards. These cards are then placed in a sorting machine, which picks up the cards according to the holes, deposits them in a sectioned receptacle, and accumulates totals of each classification, all in one operation. Then these sorted cards may be run through a tabulating machine to print the details and the totals of each classification on a sheet of paper. By repeating this operation for each type of information desired, all the facts indicated by the punched cards may be analyzed and totaled. One of the outstanding features of the system is the summary card that can be punched to record the total of the information contained on a large number of cards which may then be retired to storage.

Does the auditor err in depending upon the results of a tabulation by machine? What errors are probable? Errors can enter only by the occasional punching of a hole in the wrong position on a card, skipping a column, or putting a second hole in a column where there should be only one. These errors arise chiefly because the operator is unable either to read the data or to transcribe it properly.

Since the punched card is a tool of mechanical accounting and serves as the basis for all future tabulations, it is of vital importance that the proper holes be entered on it. In fact, there is only one stage of the punched card accounting system susceptible to human error; this is the punching of the original card. At the outset, therefore, the auditor must satisfy himself as to the accuracy of the card. Once the original card is punched and verified, the only other possible source of error is a mechanical breakdown. If the cards are correct, the information recorded on them may be tabulated and retabulated with the assurance at all times that the results obtained are mechanically correct.

The auditor must bear in mind that any effort he expends to examine the individual punched card and to put a check on it is wasted. The punched card serves, not as a document of audit but fundamentally as a part of the mechanism, a writing device like a pen or a pencil. His attention must necessarily turn to two things: the original document and the corresponding entry which a punched card has caused to appear on the books. The system should be so planned that it is simple for an auditor to trace an item on a tabulation direct to the document from which such entry came.

Even though it is commonly acknowledged that the degree of machine accuracy is higher than that of clerks, the auditor should spot-check a few additions and apply a bulk check whenever it is advisable to build up an independent control account. Spot-checking can be carried out very simply through the use of the automatic sorting operation to segregate the detail cards for the specific classification to be sought. Because a given set of data is repeatedly anlyzed in many different forms to satisfy statistical requirements, as well as the demands of the bookkeeping systems, it is difficult for a person to manipulate results either to defraud or cover up incorrect work. The psychological effect of this factor cannot be overlooked.

There is a noted tendency under this system for details to be retained on the forms provided by the machines and for bound books, where they are kept, to contain the totals. Before he can begin his work, the auditor must be certain that all basic accounting media are available, that he has a correct key to the code, and that the test cards punched before each "run" can be procured.

The necessary precautions to be taken in auditing punched card records are:

1. To note that the original documents reached the operators of the machines and that the punched cards were verified before being dealt with further.

2. To compare the tabulations with the listings compiled on an adding machine by a person other than the accounting machine operator.

3. Where no separate detailed tabulated list exists, to compare the information shown on the punched card with that on the original document. This the auditor may do by test-checking, either running the cards through the machine himself or having an operator do so under his supervision.

4. To investigate punched card removals or substitutions. There seems to be little risk of the latter under this system because of the operations involved.

The loss of a card is of no major imporance. By reference to the tabulated sheets a cross reference to the source document is found; and inasmuch as this document —not the card—is the main consideration it makes little difference. If the card is lost before the preparation of the tabulated sheet, it is immediately discovered, because the detail cannot agree with the control figure.

To provide a proof on any work, that work must be repeated, either by physical duplication or visual comparison. Both are used in the routine of most offices; in mechanized accounting systems, duplication is almost always preferred. These duplicate records often assist the auditor. As an example, he ordinarily desires to include in the scope of his audit program a detailed test check of a few individual customers' accounts; this he may accomplish by referring to the carbon copies of the actual statements sent to the customers.

It cannot be maintained that machines are foolproof to human error and manipulation. Machines are designed to prevent clerical error rather than fraud. While mechanization has exceedingly reduced the human factor in accounting, it has not eliminated it. It has even introduced new factors in which the human element may err both unintentionally and by design.

The auditor's responsibility in carrying out the duties of his profession requires that he make himself conversant with the principles of mechanization. This requirement should not cause an independent auditor any pronounced despair, for one who has mastered the fundamental principles of pen accounting is not confronted with any decided obstacle in bringing those same principles into relation with machine accounting. There is no apparent reason for him to plan on acquiring the operational skill of the specialized worker, but he ought to gain a clear understanding of the various types of office machines, the way these appliances work, the function of mechanical appliances in general, the principles of mechanization as applied to accounting, the failings of the machines—inherent and due to application, the extent to which he can rely on records produced mechanically, and the degree of assistance rendered in the prevention and detection of fraud.

As in the hand written system of double entry bookkeeping, there are three major operations in mechanical accounting. These consist of journalizing, posting, and balancing. Though the fundamentals of both systems are the same, the methods of deriving the results differ. Under the mechanical system, journalizing takes the form of listing on the adding machine, posting is part of the machine tabulation process, and balancing the work is merely a formal comparison of machine-produced balances with predetermined tape totals.

The nature of the original documents used in both systems is the same, and in general this similiarity carries over to the method of checking and controlling the paper work. The listing on the adding machine, however, furnishes insufficient detail for complete accounting records, and consequently a good filing system is an absolute necessity. There must be in force a satisfactory method of linking the documents with the journal and the ledger postings.

The auditor's examination is facilitated if the system of cross references and tabulations is complete. Some systems are so condensed and sketchy that a proper audit cannot be made in reasonable time. In many firms, almost all information is coded and the auditor may deem it necessary to require tabulations to be inserted on documents produced to him for audit. Since he may not be in a position to make readily detailed investigations and since he is given numerous summary entries, the system of internal control is of great importance to him. It is therefore absolutely necessary that the system be such that any unintentional mistakes made will be brought to light in daily operations by internal checking and reconciliation.

Some auditors may be reluctant to accept the totals shown as summations of the figures typed on the tabulated sheets. The makers of the equipment claim that the mechanism is almost error-proof, but it is doubtful that the conscientious auditor will trust these figures implicity. He can test-check a few of the totals by adding up the detail figures or he can ascertain if there is a separate independent check of these totals in another direction. The adequacy of the internal control system will determine the extent to which additions can be accepted.

The particular firm's method of adapting the machines to the work program should offer no problem to the auditor. He can trace selected transactions from origin to final disposition and thus acquaint himself with the recording procedure. It will be found that no matter how much the firm's system is like all other standardized mechanical systems, there are many exceptions which must be noted and provided for. In addition, he should obtain a certificate from a reliable person as to all he wants to know about the functioning of the machines and the maintenance and repair program followed.

By rendering considerable aid in maintaining bookkeeping records on a current basis, the mechanized system has proved a timely innovation in this age when management desires daily operational figures.

There has been taking place a gradual shift from detailed auditing to a skilled program of test and analysis. Under this system, the auditor may devote less time to arithmetical accuracy and more to the authenticity of the entries.

WHAT'S NEW IN READING

The printer is the postman to posterity—Anon.

THEIA A. GEBBIE, Los Angeles, California

FINANCIAL STATEMENTS by Ralph Dale Kennedy, Ph. D. (Richard D. Irwin, Inc., Chicago, 1946. 559 pages.)

To the reader who has a knowledge of the fundamentals of accounting, this book will give valuable data regarding the preparation and the analysis and interpretation of financial statements of industrial corporations and of certain selected specialized industries; such as, railroads, air carriers, public utilities, and banks.

The methods and principles of analysis covered may be applied to the study of operating data for the purpose of (1) determining the investment value of a business; (2) establishing credit ratings; (3) testing the efficiency of operations; and (4) determining whether financial or operating policies, methods, or practices should be continued or changed. The book acquaints the reader with sources for internal and external analysis of a business.

Problems and questions are presented for most of the material which will be beneficial to the student, and an aid for class or group discussion.

Mr. Kennedy is professor of accounting and business administration at The George Washington University.

TRANSPORTATION MANAGEMENT by Henry B. Cooley, B.E., C.E., LL.B., M.B.A. (Cornell Maritime Press, New York, 1946. 176 pages.)

Mr. Cooley is well qualified by both experience and education to interpret the problems of transportation companies and recommend improvements toward more efficient organization. He covers the business in general, and then elaborates upon each department in turn to show the inter-relation between them. Some of the departments included are traffic, personnel, the treasurer's, and the comptroller's.

That the suggestions and ideas contained here are applicable to many other businesses makes this book valuable reading for anyone, as does the impartial attitude assumed toward employee and employer in striving toward more efficient operations, lower costs, and satisfactory working arrangements. Standard costs, wage systems and incentives are encouraged with warnings as to their use without careful deliberation.

DAWN OVER ZERO by William L. Laurence (Alfred A. Knopf, New York, 1946. 274 pages. $3.00).

Two months before the test in New Mexico, Mr. Laurence, covering science news for the New York Times, was called in by the War Department to report to the world on the atomic bomb. "Dawn Over Zero" is written primarily from personal observation and brings a clearer picture to the lay public of the enormous and precarious undertaking of scientists in the perfection of the atomic bomb.

Zero was the code name given the test and everything relating to it. However, this book carries us beyond the test on July 16, 1945 and into the bombing of Nagasaki and Hiroshima. It gives human interest sidelights on the "battle of the laboratories" and relates atomic development within our own limits of scientific understanding.

More than ten years ago, Mr. Laurence was asked what he would conceive to be the biggest news story in history yet to occur. He answered, "The discovery of the means for harnessing atomic energy." In explaining that discovery to mankind, he aptly relates the destructiveness of the atomic bomb, as well as its power in the prolongation of life. He contends the atomic era must start with faith in the mind and in the spirit of man.

DIARY OF A WILLIAMSBURG HOSTESS by Helen J. Campbell (G. P. Putnam's Sons, New York, 1946. 178 pages. $3.00.)

Having been a visitor to restored Williamsburg, the asides of a hostess hold much tickling amusement to the reviewer. There is no doubt, however, that anyone who has wondered about zoos and what the monkeys think of people will find keen enjoyment from the light day-to-day chit-chat of this chronicle.

Throughout the book, we, the tourists, are there; asking silly questions, touching antiques marked "Please do not handle," showing off the little knowledge we accumulated, and trying to locate rooms in a busy season.

Here are chuckles and fun in reading.

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